

GROUP MOTIVATION AND VENDOR MANAGEMENT  
IN OUTSOURCING

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## ABSTRACT

The business strategy of outsourcing has attracted a lot of interests for its advantages in helping businesses reduce cost and improve business efficiency. However, survey conducted by the International Facility Management Association indicates that a large number of businesses are not satisfied with vendor performance. Researchers and industry leaders such as R. Klepper, F. Corbett, D. Thorpe and O. Williams have explored reasons why many outsourcing relations have ended up not successful. Failure to manage vendor performance is identified as a common cause of dissatisfaction in outsourcing.

Inspired by Public Management Occasional Paper No. 20 published by the Organisation For Economic Co-operation And Development in 1997, this Project seeks to provide a set of management practices for managers' reference in motivating vendors in outsourcing. The suggested management practices are developed from a behavioral science approach. They cover practices to achieve goal alignment, installing job satisfaction and building partnership with vendors.

The suggested management practices are analyzed against actual management practices in two case studies in Hong Kong. The case studies cover outsourcing of design services by Mass Transit Railway Corporation and outsourcing of information technology systems by Hong Kong Monetary Authority.

Analysis indicates that a number of the suggested management practices have been used by the two organizations with positive results. The author considers that the suggested management practices can serve as reference guide to managers in managing vendors, although further experimental research will be helpful to establish more concrete evidence of their degree of effectiveness.



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## CHAPTER 1

### INTRODUCTION

#### Outsourcing

*“Outsourcing is the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. It is a management strategy by which an organization outsources major, non-core functions to specialized, efficient service providers.”*<sup>1</sup>

Outsourcing has been a strategy adopted by businesses to gain greater efficiencies and to lower costs. Global outsourcing market has been growing significantly in recent years at a growth rate of approximately 10 percent per year. It is expected that by year 2000, global outsourcing will be a \$121 billion market.<sup>2</sup>

However, not all outsourcing arrangements have been a success. Recent studies have shown that many businesses are not satisfied with vendor performance.

#### Performance Issues in Outsourcing

M. Lacity, R. Hirschheim, and L. Willcocks have found, from a study of 100 companies in United States of America and United Kingdom, that for a majority of the companies studied, the expectations of the advantages of outsourcing are not met.<sup>3</sup> Appendix 1 shows the summary of the study results.



According to surveys conducted by the International Facility Management Association, 26% of the sample businesses reported that they had brought back at least one service that previously had been outsourced. The most common problem found in the survey was that vendor staff were less company-oriented than the companies' employees. 66% of the surveyed sample having discontinued their vendors' services quoted performance quality as the reason for discontinuing the outsourcing relations.<sup>4</sup>

### Group Motivation and Vendor Management in Outsourcing

#### The Behavioral Science Approach

This Project studies how behavioral science theories on motivation can be applied to outsourcing. This Paper suggests a number of management practices that seek to positively increase motivation amongst vendors to achieve better than expected performances. Case studies in later chapters are used to validate some of the suggested management practices in Hong Kong.

This Project addresses vendor management from a behavioral science dimension and draw on established motivation theories and literature reviews from works by leaders in the outsourcing industry.

The author recognises that there are other dimensions in managing outsourcing. The legal aspect in establishing a comprehensive contract that allows businesses the rights to take legal proceedings for vendor's breach of contract is important. Businesses may also rely on financial measures to link performance with payment.

However, the pure use of legal and financial means to control vendor performance may not be effective. These are punitive measures and are only deployable when problems have arisen. This Project seeks to find ways to promote vendor

performance through positive measures and in managing outsourcing in a proactive manner.

### Types of Outsourcing Studied

This Project focuses on the outsourcing of intellectual works in the following areas:

1. Consultant services where the vendor with specialist skills provide analysis, information and intellectual property. This type of outsourcing is represented by the railway development design outsourcing in the Mass Transit Railway Corporation case study in Chapter 3.
2. Provision of expert works where the vendor applies specialist skills and knowledge in the design, supply, development, test and commission of a tangible product. This type of outsourcing is represented by the information technology system outsourcing by the Hong Kong Monetary Authority case study in Chapter 4.

In both of the above types of outsourcing, the businesses contract out a portion of its value chain to the vendor.



## CHAPTER 2

### SUGGESTED MANAGEMENT PRACTICES IN MOTIVATING VENDORS

#### Background

The Organisation For Economic Co-operation and Development (OECD), in 1997, published a set of practice guidelines on outsourcing of government services. In the publication a number of management practices are suggested.<sup>5</sup> The recommendations are summarized in Appendix 2.

The OECD study is based on case studies but no effort is made to explain the recommendations or support the recommendations with theoretical principles. Many of the OECD recommendations are on general outsourcing issues and are not related to motivating the vendor.

This Project takes the OECD approach a step further. This Chapter describes the theoretical framework and presents results from literature research. A number of management practices are suggested. The suggested management practices are intended to assist managers to motivate the vendor to achieve better than expected performance and results in outsourcing.

It is assumed that the readers are conversant with the long established motivation principles discussed in this Chapter. Detailed explanations of the motivation principles will not be given. The word 'employer' is used to describe the business that outsources its activities. The word 'vendor' will be used to describe the company that

provides the services to the employer in an outsource contract. Singular nouns are used throughout.

### Alignment of Organizational Goals

The need to align the organizational goals of the employer and the vendor is important. Managers realize that by the nature of the business of the employer and the vendor, their organizational goals are divergent. The challenge is to align the organizational goals to make them compatible through effective management.

Michael F. Corbett, co-founder of The Outsourcing Institute, stated that employer's goal is to obtain business efficiency and reduced cost by outsourcing; the vendor's goal is to maximize profit and to use the lowest resources to satisfy the contract.<sup>6</sup>

Employer management's concern is how to obtain the best results from outsourcing. However, vendor staff ultimately report to the vendor organization and not to the employer management. There is little benefit to the vendor staff on an individual level to take the initiative to improve performance.

Work needs to be done to bridge the missing link in between the goals of the employer and the vendor, and to align the vendor's goal with that of the employer. The following management practices are suggested:

- (A) Communicate the goals to the vendor.
- (B) Translate the goals to measurable performance targets and provide regular feedback to the vendor on performance.
- (C) Reinforce good performance with recognition.
- (D) Contact vendor senior management regularly.

### Alignment Of Goal – Management Practice:

#### (A) Communicate The Goals To The Vendor

Many outsourcing documents specify only what the vendor shall do. The vendor has no knowledge of the purpose for which such services are specified. The vendor cannot use its expertise to design the services to suit the business purpose of the employer. Therefore, the vendor is reduced to taking up a passive role in the outsourcing, without knowledge of the goals of the employer.

To align the goals of the vendor, the employer needs to be open with the vendor and communicate the goals to the vendor explicitly and clearly. The employer needs to provide information to the vendor for the vendor to become an integral part of the employer's value chain.

If there is a business problem the employer cannot resolve and wish to pass on to the vendor, let the vendor know about the problem as early as possible. Any differences in opinions and potential conflicts envisaged by the employer with the vendor should be openly discussed with the vendor before forming the outsourcing relationship.

### Alignment Of Goal – Management Practice:

#### (B) Translate The Goal To Measurable Performance Targets

And Provide Regular Feedback To

The Vendor On Performance

The Goal-Setting Theory suggests that specific and difficult goals lead to higher performance.<sup>7</sup>



The employer should translate the business goal into quantified performance targets for the vendor. The Management by Objectives program developed by Peter Drucker provides a good guide on what should be done to obtain performance result by setting goals.<sup>8</sup>

The employer cannot assume that once a business function is outsourced, the employer can abdicate its management of that function to the vendor. The employer should on a regular basis provide feedback to the vendor on whether the targets are achieved. The employer should be a positive Pygmalion<sup>9</sup> and encourage the vendor in providing the services.

#### Alignment Of Goal – Management Practice:

##### (C) Reinforce Good Performance With Recognition.

According to the Expectancy Theory, staff tend to be motivated and to exert high level of effort when they believe that effort will lead to good appraisal and reward.<sup>10</sup>

Many businesses already operate schemes to recognize good performance by organizational members. Such performance recognition scheme should be tailored to operate to the vendor staff as well.

Recognition provides good valence to reinforce good performance and motivate staff to continue to achieve a high level of performance.<sup>11</sup> Public and high profile recognition of good work also raise the self-efficacy of staff and invoke their continuous improvement.<sup>12</sup>

Vendor staff should not be differentiated from the employer's own staff. The employer should equally recognize vendor staff. Practical measures include employer's

direct bonus payment to vendor staff, issue of certificate of achievement and featuring vendor staff in employer's internal newsletter.

#### Alignment Of Goal – Management Practice:

##### (D) Contact Vendor Senior Management Regularly

Since the vendor's senior management controls the vendor staff's career, it is necessary for the employer to convey feedback on vendor staff performance to the vendor's senior management. The employer should take an active interest to ensure good performers in the vendor are rewarded and recognised accordingly by the vendor organization.

The vendor staff will be motivated if they understand that by satisfying the employer, the positive appraisal will be made known to the vendor's senior management. The vendor staff can thus see a direct link between performance in outsourcing and their own career advancement in their organization.

Often the senior management of the vendor are not involved in the operation of the outsource contract. To overcome this, the employer need to have regular contact with the senior management of the vendor to keep them informed of staff performance. Provisions can be included in the outsource contract requiring that the vendor give award and recognition to good performing staff who are recommended by the employer.

#### Installing Job Satisfaction in Outsourcing

Research by Ostroff in 1992 supports that job satisfaction and performance are positively correlated.<sup>13</sup> Organizations with more satisfied employees are more effective than those with less satisfied employees.

There are methods that the employer can do to install job satisfaction in outsourcing. The following are management practices that may promote job satisfaction to the vendor:

- (A) Outsource works in challenging package.
- (B) Be results oriented and do not micro-manage the vendor.
- (C) Provide an equalized working environment.

#### Installing Job Satisfaction in Outsourcing – Management Practice:

##### (A) Outsource Works in Challenging Package

M. Albert discussed that professionals have a strong and long-term commitment to their field of expertise. The work itself can provide intrinsic motivation to professionals.<sup>14</sup> Other research have indicated that this finding applies to staff in general.<sup>15</sup>

This observation agrees with McClelland's Theory of Needs in which the need for achievement contributes to motivation. The theory suggests that staff appreciate responsibility, feedback and moderate amount of risk in their jobs.<sup>16</sup>

The scope of the outsource services should be designed to be task oriented and to let the vendor be responsible for the success or failure of the task. The vendor should be made to feel that the vendor is in charge of the results. A task should be outsourced in its entirety. David Thorpe, Managing Director of EDS, UK suggested that employer should not make the mistake of outsourcing part of the task and leaving the vendor without control of the results.<sup>17</sup>

This is especially important with the types of consultant outsourcing services described in Chapter One. In outsourcing works to consultants, the consultants will be



motivated if they perceive the services as challenging and enhancing professional development.

#### Installing Job Satisfaction in Outsourcing – Management Practice:

##### (B) Be Results Oriented and Do Not

##### Micro-Manage the Vendor

David Thorpe, Managing Director of EDS, UK advised that employer should not micro-manage the vendor.<sup>17</sup>

The vendor should be allowed the freedom to decide how the job is to be performed. The employer must understand that to tap the advantages of outsourcing, the employer cannot dictate how the services are to be carried out. Instead, the employer should focus on the results and provide support to the vendor in achieving targets.

#### Installing Job Satisfaction in Outsourcing – Management Practice:

##### (C) Provide an Equalized Working Environment to Vendor

This management practice is applicable to outsourcing in which the vendor works in the employer's premises.

Herzberg's research indicates that working condition is a hygiene factor instead of a motivating factor.<sup>18</sup> However, in outsourcing where the vendor physically work together with the employer, the Equity Theory by J.S. Adams provides that if the vendor staff felt that they are being unequally treated, performance may suffer.

As discussed earlier on alignment of organizational goal, the vendor should be treated as part of the employer value chain. Equalized treatment of vendor facilitates the vendor buy-in of the employer's goals. No vendor can be motivated if the vendor is

given insufficient space to set up workspace at the employer's office and be rejected access to office equipment.

The vendor need to be treated fairly to prevent the creation of a "them and us" feeling. Office and workspace allocated to vendor should commensurate with those enjoyed by employer staff. The vendor should be given access to amenities such as staff bathrooms, canteen and library. These provisions enhance the creation of vendor/ employer affiliation, an important motivator in McClelland's Theory of Needs.<sup>16</sup>

This equalization of treatment also promote teamwork between employer staff and vendor staff by signalling that the vendor is treated as part of the organization.

#### Partnering with the Vendor

The concept of partnering with the vendor may represent a paradigm shift to people who treat outsourcing as a simple business transaction. People who manage outsourcing as a simple business transaction cannot maximize the benefit of outsourcing through the development of a working relationship with the vendor.

To adopt the mindset of treating the vendor as a genuine business partner is an important element in allowing the employer to build up a long-term relationship that obtain synergy with the vendor. Building a partnership means building trust between the employer and the vendor so that both contribute resources to meet each other's need to reach a 'win-win' situation.

V. B. Honeycutt, CEO of CSC Inc.<sup>19</sup>, David Thorpe, Managing Director of EDS, UK<sup>17</sup> and O Williams, founder of the CMG Consulting Group<sup>20</sup> advocate the building of trust and partnership between employer and vendor. They see partnering as a mean to tie the business goals of employer and vendor closely together and respect

each other's capabilities. This will enable both parties to concentrate on their strengths and achieve synergistic results.

The following are suggested management practices that promote partnering:

- (A) Select vendor with compatible organizational culture.
- (B) Ensure vendor outsource manager has the leadership quality.
- (C) Manage the constituents within the employer organization.
- (D) Nurture the partnership by top management over time.

#### Partnering With The Vendor - Management Practice:

- (A) Select Vendor With Compatible Organizational Culture

Oakie Williams considers that it is advisable to ensure that the employer and the vendor's basic business philosophies are complimentary.<sup>20</sup>

Eberhard Scheduling considers that employer and vendor should share a common set of values and be committed to each other in the relationship at executive level.<sup>21</sup>

Robert Klepper and W. Powell suggested that the following are key values.<sup>6</sup>

- Reciprocal and mutual supports.
- Positive actions and refrain from opportunistic actions.
- Taking long term perspective.
- Willingness to give and take, resolving differences as they arise.
- Sharing of gain, risks and losses.

M. F. Corbett suggested a number of techniques to maintain compatibility of organizational cultural.<sup>6</sup> These techniques are attached in Appendix 3.

Many businesses select their vendors on the basis of price alone. Employer need to understand that vendor selection should cover evaluation of the vendor in



terms of vendor past records, reputation and organizational behavior in terms of culture and values.

#### Partnering With The Vendor - Management Practice:

##### (B) Ensure Vendor Outsource Manager Has The Leadership Quality

Identifying vendor with compatible culture and values is the first step in partnering. The effective partnership also depends on how the outsourcing is managed by the vendor.

This requires the vendor's outsource manager to share the vision of his or her company and be able to work with the employer as a team. More importantly, the outsource manager needs to possess the leadership quality to influence and manage his or her staff well.

If the negotiation of the outsourcing is carried out by the vendor marketing team, the employer should request the participation of the future outsource manager to join the negotiation. This will allow the employer to observe outsource manager's ability and personality traits. The process will also ensure that the outsource manager is committed to the terms of the outsourcing contract his or her marketing team agreed for the outsourcing contract.

#### Partnering With The Vendor - Management Practice:

##### (C) Manage The Constituents Within The Employer Organization

The Outsourcing Manual defines constituents as '*Any person or body who has, or believe they have, a direct or indirect interest in the programme or its outcome and*

*who has sufficient authority, influence or ability either to make a significant contribution or inflict significant delay if not properly managed or consulted.'*<sup>17</sup>

Top management of the employer should realize that the employer's in-house constituents need to be managed to make the outsourcing a success. The constituents need to understand and accept the outsource strategy. Cooperation by the constituents in the outsourcing is important. Measures to manage the constituency are included in Appendix 4.

#### Partnering With The Vendor - Management Practice:

##### (D) Nurture The Partnership By Top Management Over Time

O. Williams<sup>20</sup> and E. Scheuing<sup>21</sup> suggest that the employer top management should stay involved in the partnership. This ensures top down commitment of the partnership by all levels of the organization. Regular progress meetings by the top management of employer and vendor discuss and identify problems are highly recommended.

R. Klepper<sup>6</sup> considers the following useful in maintaining the partnership:

- Establish good personal relationship with vendor management.
- Let the vendor know that future work will be contingent on performing well on the current contract.
- Let the vendor know you are willing to help publicise the vendor's good performance in the industry.

Another often suggested way to keep the relationship on track is the deployment of 'Tit for Tat' strategy.<sup>22</sup> Developed from the Game Theory, this strategy suggest the employer to take initiative to cooperate with the vendor; but swiftly

retaliate for any misbehavior of the vendor. This is to be followed up by reconciliation to revert back to a cooperative relationship.

### Summary Of The Suggested Management Practices

The above suggested management practices are focused on ways to motivate the vendor and the adoption of a partnering strategy with vendor.

The following two chapters provide the case studies on Mass Transit Railway Corporation and the Hong Kong Monetary Authority. Chapter 5 provides analysis on how some of the suggested management practices have been observed in the case studies and the results.



## CHAPTER 3

### CASE STUDY 1: MASS TRANSIT RAILWAY CORPORATION AND OF DESIGN SERVICES OUTSOURCING

#### Introduction of Mass Transit Railway Corporation

The Mass Transit Railway Corporation (MTRC) is incorporated under the Mass Transit Railway Corporation Ordinance (Chapter 270) and wholly owned by the Hong Kong SAR Government. The purpose of MTRC under the Ordinance is:

*“To construct and operate, on prudent commercial principles, a mass transit railway system having regard to the reasonable requirements of Hong Kong’s public transport system”.*

The MTRC carries an average of 2.2 million passengers per weekday in 1999. Total revenue for year 1998 amounts to HK\$ 6,981 million. In the Hong Kong SAR Government 1999-2000 Budget, plan was declared to list a minority stake of the Government’s holding in MTRC at the Stock Exchange of Hong Kong Limited.

#### Principle Business of MTRC

The principle business of MTRC is divided into 3 main areas:

1. Operate the urban railway systems and the Airport Railway. Carry out facility management of the railway infrastructure and trains.

2. Plan, design, construct and commission new railway extensions to satisfy the future transport needs of Hong Kong.
3. Develop and manage properties above and adjacent to the railway systems where the Government has granted property development rights to MTRC.

### New Railway Extensions

MTRC had planned, designed, constructed and commissioned 5 railway lines since its incorporation. The railway lines are the 'Kwun Tong Line', 'Tseung Wan Line', 'Island Line', 'Tung Chung Line' and the Airport Express service. All these projects were completed on time and within budget. The ability to develop new railway system has been a core competence of MTRC.

In 1999, the following railway extensions are underway:

1. Tseung Kwan O Extension - consists of four new stations and a depot connecting Kwun Tong Line with the Tseung Kwan O new town. To be completed at end of year 2002.
2. Quarry Bay Congestion Relief Scheme - consists of a new tunnel linking Quarry Bay Station with North Point Station and expansion of North Point Station to add two new platforms. To be completed at end of year 2000.
3. Planning and preliminary design for East Kowloon Line and the North Hong Kong Line, being part of the proposed new railways under the Government's Rail Development Study.

### The Role of Outsourcing in New Railway Extension

MTRC has adopted the outsourcing strategy in the design of new railway extensions. Most of the detailed design services have been outsourced to engineering

consultant firms. The consultant firms produce the detailed design based on preliminary design and functional requirements developed by MTRC in-house. Only certain special design works, which the consulting market does not have sufficient expertise to handle, are retained by MTRC.

The management of design consultants in MTRC is handled by the project management teams.

### The Airport Railway Design Outsourcing Experience

In Airport Railway, the design services for each station was divided into 4 packages and each was awarded to one consultant firm. The total number of consultant firms in Airport Railway was close to 30.

MTRC divided the design works into small packages and used competitive tendering to obtain cost advantage from the consulting market.

The consultant firms operated from their own offices. Communication between consultant firms and MTRC were mainly through correspondence and supported by monthly progress meeting and ad hoc design meetings.

### Vendor Management Improvements

While the outsourcing strategy of MTRC in Airport Railway did allow MTRC to reduce cost and control in-house design staff expenditure, problems had arisen in the area of coordination and managing design changes. MTRC top management considered that improvements in management of consultant firms performance are necessary for future railway extensions.

In 1996, MTRC commissioned a study to review the design management process. The following are key recommendations from the study:



1. Work in partnership with consultant firms
2. Achieve common understanding and belief in the design process by effective communication.
3. Be consistent and adhere to agreed process. Avoid changes which do not support project goals.
4. Provide information and data to consultant firms early.
5. Work as a team and with flexibility.
6. Make consultant firms be responsible for the design. Avoid seeking changes from consultant firms based on personal preferences. MTRC to act as manager of the process, neither as designer nor as checker of consultants' works.

#### Tseung Kwan O Extension Design Outsourcing Strategy

A number of improvements have been made to the outsourcing strategy for Tseung Kwan O Extension following the lesson learned in Airport Railway.

First, the outsource package are grouped into larger package; thus reducing the number of major design package to eight. Consultant firms are required to group amongst themselves to form multi-discipline team to bid. This strategy encourages consultant firms to identify and choose their referred partners. The aim is to encourage better coordination among consultant firms in delivering the design.

In addition, consultant staff are required to work at MTRC's offices with MTRC project management team. Locating the consultant staff and the MTRC staff together promotes frequent and direct communication. Consultant staff are treated as if they were MTRC staff. They are provided with the same office accommodation, furniture, computers and have access to MTRC office automation equipment. They are entitled to use the MTRC staff canteen.

According to a survey carried out in 1998, the above arrangements for Tseung Kwan O Extension design outsourcing are well received by the consultant firms. MTRC also found that improved consultant performance is achieved.

## CHAPTER 4

### CASE STUDY 2 : HONG KONG MONETARY AUTHORITY AND INFORMATION TECHNOLOGY OUTSOURCING

#### Introduction of the Hong Kong Monetary Authority

The Hong Kong Monetary Authority (HKMA) is a government owned organization, reporting to the Financial Secretary of the Hong Kong SAR Government.

The purpose of the HKMA is to:

1. maintain currency stability, within the framework of the linked exchange rate system, through sound management of the Exchange Fund, monetary policy operations and other means deemed necessary;
2. promote the safety and stability of the banking system through the regulation of banking business and the business of taking deposits, and the supervision of authorized institutions; and
3. promote the efficiency, integrity and development of the financial system, particularly payment and settlement arrangements.



### Organization of HKMA

Its Chief Executive, Mr. Joseph Yam, heads the HKMA. He is assisted by Deputy Chief Executives Mr. Tony Latter, Mr. Norman Chan and Mr. David Carse in overseeing the following eight departments:

- Banking Policies Department
- Banking Supervision Department
- Legal Office
- Land Fund Office
- Reserves Management Department
- Monetary Policies & Markets Department
- External Department
- Research Department

The Information Technology Division (IT Division) is a part of the Monetary Policies and Markets Department and provide IT support to the whole of HKMA.

### Information Technology Division

HKMA operates as the investment and banking monitoring arms of the HKSAR Government. HKMA has to process, analyze and record of a large volume of financial data to fulfill its role. The HKMA IT Division has implemented various management information systems tailored for this unique business nature.

For reserve management and trading activities, the deal capturing system named 'CityDealer' allows HKMA to input deals direct for back-office settlement electronically. For banking supervision and monitoring, the system named 'STET' provides electronic commerce technology of encryption, electronic authentication and electronic signature. The 'STET' also provides security to information exchange and

allow only system access to authorized personnel. Implementation of the 'STET' system enables HKMA to develop essential technical and operational know-how in electronic commerce, including the operation of the first Certificate of Authority for electronic commerce in Hong Kong.

In addition, the IT Division manages the HKMA's IT infrastructure. The IT infrastructure covers HKMA headquarters at Central Hong Kong, the Land Fund Office, HKMA New York Office and Quarry Bay Office. The infrastructure support e-mail, personal computer fax, Internet connectivity and administrative works automation. In early 1997, a back-up computer centre was established in HKMA's Quarry Bay Office. This office is linked to the Central office by a high-speed fibre optic network.

The IT Division's current challenge in 1998 – 1999 is the development and implementation of the Year 2000 compliance testing program. HKMA has already applied for the ITAA\*2000 Certification from the Information Technology Association of America and was certified on November 1998.

#### Outsourcing by IT Division

The IT Division rely on outsourcing to keep staff head count low. Outsourcing also allows HKMA IT staff to focus on strategic issues such as planning and resource management.

The outsourcing works in the IT Division can be categorized into 2 areas:

##### 1 Custom Engineering -

The vendor provides an IT system solution based on performance requirements on a project basis. The IT Division outlines the high level IT system architecture. The vendor performs the system design, equipment procurement

and system integration. Works are carried out at the vendor's offices until the commissioning period when the vendor staff install and test the system at HKMA offices.

## 2 Maintenance Support -

The vendor provides a dedicated team of computer engineers to maintain the IT infrastructure in HKMA and to resolve maintenance problems on a term contract basis. A key requirement is for the vendor to operate a 'help desk' manned by vendor staff at HKMA offices on a full time basis.

### Outsourcing Management at HKMA

The vendors report to the IT Division senior managers responsible for the respective IT systems. But unlike the MTRC Case Study in Chapter 3, HKMA does not have full time staff to fulfill the project management function. Senior managers in the IT Division have responsibility on certain element of the IT systems. Senior managers typically spend less than 20 per cent of their time monitoring and managing vendors.

There are no expressed procedures in the IT Division regarding vendor management. The philosophy amongst the IT Division is that vendors are contractually obliged to provide services to the level of quality that are specified in the contract. Although there are no procedural guidelines at HKMA on motivating vendor, powerful motivating forces are observed in the outsourcing practice adopted by HKMA.

### Motivating Factors to Vendor Top Management - Partnership and Competition

HKMA has developed a relation with the vendors that can be described as limited partnership. HKMA's strategy is to outsource the IT system services to a small



number of capable vendors who have performed well in the past. IT system expansions and maintenance works means future job opportunities exist for those vendors. Invitation to bid for further jobs is linked to vendors' performance.

#### Motivating Factors to Vendor Staff – Recognition and Promotional Prospect

IT Division senior managers have regular contacts with the senior management of the vendors. HKMA use those opportunity to discuss performance on existing contracts and future jobs with the vendor senior management and provide feedback on performance of individual vendor staff.

HKMA requires the curricular vita of vendor staff to be submitted with tenders for new works. HKMA screens the proposed staff and select those vendor staff who had performed well in the past for the new jobs. This mechanism together with regular contacts between senior management create an awareness in the vendor staff that good performance in HKMA will provide rewards. As HKMA is one of the major IT systems clients in Hong Kong, vendor staff recognized by HKMA are almost guaranteed of good promotional prospect within the vendor organizations.

Another motivating factor to vendor staff is the HKMA policy to provide vendor staff operating from HKMA office the same privilege as HKMA staff. Vendor staff are provided with standard office workstation and have access to computers and the office automation equipment. Vendor staff can also use the HKMA library.

HKMA considers that the performance of vendor staff located at HKMA office is better than those who are not. This finding agrees with the finding in the MTRC case study that vendor performance improves when vendor staff and MTRC staff are located together.



## CHAPTER 5

### ANALYSIS FROM CASE STUDIES

The management practices suggested for motivating vendor performance in Chapter 2 are analyzed in the context of the MTRC and HKMA case studies in Chapters 3 and 4.

#### Alignment of Organizational Goals

##### (A) Communicate the Goals to the Vendor

No explicit communication of organizational goals to vendor is observed in both cases. No effort is observed in bridging the divergent organizational goals at the organization level. MTRC and HKMA focus on the end product or services requirement instead of the business process that the vendor need to fulfill.

Therefore the effectiveness of this suggested management practice of communicating organizational goals to the vendor cannot be validated from the case studies.

##### (B) Translate The Goal To Measurable Performance Targets

And Provide Regular Feedback To

The Vendor On Performance

This suggested management practice is used by MTRC and HKMA.

Both organization set clear performance target in the outsource documentation. In MTRC, feedback is provided to vendor through regular progress meetings. The progress meetings are part of MTRC project management procedures. HKMA have similar monitoring mechanism for major IT outsource contracts. Regular vendor meetings are not required in HKMA and meetings are arranged on an ad hoc basis.

In addition, MTRC operates a milestone system in which written confirmations are issued to the vendor when a certain performance target is reached.

This suggested management practice has provided good performance results according to the case study.

### (C) Reinforce Good Performance with Recognition

This suggested management practice is used in MTRC and HKMA.

MTRC carry out regular quality audits on vendors. Certificates are issued to recognise good performance. In some MTRC outsource contract, a bonus payment is made if the performance of the vendor constantly meet targets.

HKMA provides recommendation letters to vendor staff to confirm satisfactory completion of projects. Those letters are useful to the vendor staff on an individual level as the letters record good performance and assist the career development of the vendor staff.

The use of formal recognition system by MTRC is considered to have a positive motivating effect by Parsons Brinckerhoff Asia Limited, a key vendor to MTRC on railway extension design services.<sup>23</sup>

This suggested management practice is considered to enhance vendor performance according to the case studies.

#### (D) Contact Vendor Senior Management Regularly

MTRC and HKMA adopt different practices in establishing contacts with vendor senior management.

In MTRC, the senior management of the organization only meet the vendor senior management during the final negotiation of the outsource contract. They do not meet again unless major problems arise in the outsource contract.

In HKMA, meeting between senior management with their vendor counterparts is regular. The HKMA uses these meetings to discuss performance and provide feedback. The vendor senior management uses the meetings to collect information on client satisfaction and explore opportunities for future outsourcing works at HKMA.

This suggested management practice has proved effective in the HKMA case. MTRC does not meet vendor senior management regularly and therefore the result is verified by the HKMA case alone.

#### Installing Job Satisfaction with the Vendor

##### (A) Outsource Works in Challenging Package

This suggested management practice is used by MTRC and HKMA. Both organizations provide challenging works to vendor. MTRC is perceived by vendors as a world class railway operator. Vendors see HKMA as a top notch IT client who demands premium quality services. MTRC and HKMA have policy to put responsibility to the vendor and allow the vendors maximum control in determining methodologies of the outsource services.



Parsons Brinckerhoff Asia Limited, vendor to MTRC <sup>23</sup>; and Automated Systems Limited, vendor to HKMA, rank the two organizations are one of their preferred customers.<sup>24</sup>

This suggested management practice is therefore validated as effective by the two case studies.

## (B) Be Result Oriented and Do Not

### Micro-Manage the Vendor

This suggested management practice is adopted by HKMA and is beginning to be adopted by MTRC following the experience from Airport Railway.

In HKMA the IT managers are not involved in the outsourcing full time and typically spend a fraction attending to the outsource contracts. In addition, the technological development of IT is so quick that the vendor's expertise is relied upon to deliver the services.

MTRC operates full time project management teams and use a '*hands on*' management approach. MTRC demand a lot of written submissions from vendors in the form of proposals, programme and reports. MTRC requires vendors to obtain MTRC approval on methodology before implementing any action. As MTRC managers have similar technical background as the vendor staff, it is not uncommon that MTRC managers are found to try to influence the works of the vendor.

As pointed out in the MTRC case study, MTRC has discovered the problem of micro-managing the vendor. MTRC is creating awareness in the organization to address this management problem.

This suggested management practice is therefore validated as effective by the two case studies.



(C) Provide an Equalized Work Environment to Vendor

This suggested management practice is used by MTRC and HKMA.

Both organizations provide the same standards of office space and office automation equipment to vendors when the vendor is required to work in MTRC or HKMA offices. Vendors are allowed access to libraries and canteen. Both organizations have discovered that the performance of vendor improved when they work together in the same offices.

This suggested management practice is therefore validated as effective by the two case studies.

Partnering with the Vendor

(A) Select Vendor With Compatible Organizational Culture

MTRC and HKMA do not include organizational culture assessment as part of the selection criteria for new vendors. However, once a vendor has carried out services for MTRC and HKMA, both organizations review the organizational values of the vendor in determining if the vendor can be invited for further outsourcing works.

New vendor refers to vendor that has not previously carried out any services for MTRC and HKMA. New vendor with relevant experience in services of a similar scope and size are allowed to tender. If the new vendor submitted the lowest price, the outsourcing contract would be awarded to this vendor.

One reason why organizational culture is not taken as a factor for assessing new vendor is because organizational culture is intangible and is difficult to assess. Unless an objective rating system is developed for assessing organizational culture,

MTRC and HKMA can face accountability problems if a new vendor is rejected for reason of incompatible organizational culture.

For existing vendor that MTRC and HKMA have experience working with, the organizational values of the vendor related to performance are recorded and is a factor in determining if the vendor is allowed further jobs.

MTRC produces contract review report on completion of each outsourcing contract. The vendor performance, cooperativeness and claim consciousness are recorded. These reports are retained for future reference. Vendors who are given an unsatisfactory grade may be excluded from being invited to bid for further jobs. At HKMA, similar vendor reviews are carried out before HKMA inviting proposals for new outsource contracts.

This suggested management practice of selecting vendor with compatible organization culture is not completely verified in the case studies. However, MTRC and HKMA do consider the key organizational values of cooperativeness, claim consciousness and good performance in determining if a vendor can be invited again for further works.

#### (B) Ensure Vendor Outsource Manager Has The Leadership Quality

This suggested management practice is used by both MTRC and HKMA.

The two organizations understand the importance of choosing a good vendor manager. Prior to award of the outsource contract, they requires the vendor to provide the name and curriculum vitae of the key vendor members who will manage the outsource services.

In addition, MTRC meets the vendor manager and make sure the vendor manager commits to the agreements the vendor marketing team have negotiated.

MTRC requires the vendor manager to be fully aware of the contract requirements. This promote buy-in by the vendor manager of the outsourcing deal. It also prevents the vendor manager from perceiving the contract as being 'thrown in' without his or her agreement to the outsourcing terms.

HKMA goes one step further compared to MTRC. HKMA would nominate to the vendor the vendor manager who has established a good working relationship with HKMA. The HKMA practice to hand pick the vendor manager is a powerful way to build up a partnership with the vendor. This practice impressed the vendor manager and encouraged the vendor manager to understand that providing good service to HKMA may help his career in the vendor organization because HKMA will nominate him or her in future outsourcing services.

The suggested management practice of ensuring vendor manager has the leadership quality is verified as effective in the two case studies. In addition, the success of HKMA practice to nominate the vendor manager is worth noting.

### (C) Manage the Constituents Within the Employer Organization

This suggested management practice is used by MTRC and HKMA.

Both organizations understand the sensitivity of the outsource decision to internal stakeholders. Both organizations show a top-down commitment to the outsourcing strategy. Stakeholders are invited to participate in detailing the strategy by a process of consultation and commenting on the outsource requirements.

In the above section on the suggested management practice of avoiding micro-managing the vendor, this Paper discussed that MTRC has noted incidents when the vendor was influenced by preferences of the project management team. MTRC senior management has reviewed the experience learned in the Airport Railway and has held



internal seminars to educate its project management staff on where improvement can be made to better manage future outsourcing works. Such internal educational and promotional programmes by MTRC senior management are ways to manage MTRC's constituents of middle and junior level management.

The suggested management practice of managing the employer internal constituents is validated as necessary by the case studies.

#### (D) Nurture The Partnership By Top Management Over Time

This management practice is not evident from the case studies.

The top management of MTRC only meets the vendor's counterpart during the final stage of contract negotiation and when major problem arises in the outsourcing contract. Similarly HKMA top management does not have programme to meet the top management of vendor for development of relationship.

Vendor senior marketing personnel do initiate contact with MTRC and HKMA top management. But such contacts are informal and are not carried out on a regular basis. The meetings are for gathering information on potential new works and are not intended for team building or partnering.

The effectiveness of the suggested management practice of nurturing partnership by top management over time cannot be verified by the case study.



## CHAPTER 6

### CONCLUSION AND FURTHER RESEARCH

#### Conclusion

Chapter 2 suggests a number of management practices that businesses can use to motivate vendor performance in outsourcing. These management practices are developed from behavioral science theories and address the issue of alignment of organizational goals, installing job satisfaction to the vendor, and partnering.

The following suggested management practices have been used in the MTRC and HKMA case studies with positive results:

- Translate goals to measurable performance targets and provide regular feedback to the vendor on performance.
- Reinforce good performance with recognition.
- Contact vendor senior management regularly.
- Outsource works in challenging package.
- Be result oriented and do not micro-manage the vendor.
- Provide an equalized work environment to vendor and allow vendor equal access to amenities (apply where vendor work in employer offices).
- Ensure vendor outsource manager has the leadership quality.
- Manage the constituents within the employer organization.

The following suggested management practices have not be used by MTRC and HKMA and are not validated from the case studies:

- Communicate the goals to the vendor.
- Select vendor with compatible organizational culture.
- Nurture the partnership by top management over time.

Managers are advised to integrate behavioral science approach in managing vendor in outsourcing. The above suggested management practices are worth noting by managers in drawing up strategies to motivate performance by vendor.

#### Further Research

The case studies in this Project serve as an initial stage in determining the effectiveness of the suggested management practices in real business situation.

Further experimental research can be carried out to test and verify the correlation between each of the suggested management practice and the result. The experimental research is needed to establish the degree of effectiveness of the practices across a reasonable sample size of businesses.

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## APPENDIX 1

## FAILED AND REALIZED OUTSOURCING EXPECTATIONS

Initial Expectation for Outsourcing		How Expectation Failed
1	Financial	
1.1	Reduce cost and improve cost control.	Failure to detect and predict hidden cost in the Outsourcing contract. No mechanism to control costs associated with changes in requirements.
1.2	Restructure department budgets through Outsourcing.	Management shortsightedness. Failure to evaluate future costs in a long term Outsourcing contract.
2	Business	
2.1	Free up resources to focus on core competencies.	Loss of business expertise resulting from treating the outsource activity as an utility.
2.2	Use Outsourcing vendor to absorb overlapping business activities in mergers and acquisitions.	Vendor unable to handle the responsibility because of lack of expertise and information.
3	Technical	
3.1	Improve technical service.	Service degrades because of lack of service-level agreements; contention with the vendor's other clients, overworked vendor staff.
3.2	Access to technical talent.	No change in technical talent in cases where the company's staff are transferred to the vendor; new vendor talent is possible but expensive.

<b>Initial Expectation for Outsourcing</b>		<b>How Expectation Failed</b>
3.3	Access to new technologies.	Possible but expensive. Vendors are motivated to run old technologies for as long as possible.
3.4	Duplicate success of other companies using an Outsourcing strategy.	Decision to Outsourcing based on exaggerated claims appearing in the literature. Jumping on the bandwagon effect and failure to understand the critical success factors.
4	<b>Strategic Decisions</b>	
4.1	Top management wishes to eliminate 'troublesome' departments through Outsourcing.	Company cannot outsource a management problem.
4.2	Breaking the glass ceiling.	Outsourcing used as a mean to promote department manager's reputation, instead of as an effective way to handle business issues.

Source:

Contents adopted from an article by Mary Lacity, Rudy Hirschheim, and Leslie Willcocks appearing in Information Systems Management, Fall 1994, Vol. 11 Issue 4.

APPENDIX 2

OECD OUTSOURCING BEST PRACTICE GUIDELINES

Guidelines		Implementation
1	Strategic Level	
1.1	Secure top management involvement.	<ul style="list-style-type: none"><li>• Outsourcing should be integrated with the overall corporate strategy of the organization.</li><li>• It requires the active leadership of top management, which should own and oversee the Outsourcing arrangement.</li></ul>
1.2	Encourage re-engineering.	<ul style="list-style-type: none"><li>• Outsourcing can lead to tensions and resistance.</li><li>• Top management should prevent and resolve such internal impediments.</li></ul>
2	Operational Level	
2.1	Focus on staff issues.	<ul style="list-style-type: none"><li>• Address concerns of staffs who are affected by outsourcing. Minimize any period of uncertainty to the staff.</li><li>• Consult staff and deal with them honestly and frankly. Keep them informed.</li></ul>

Guidelines	Implementation
2.2 Develop and maintain essential skills.	<ul style="list-style-type: none"> <li>• Organizations require new skills to manage outsourcing. Recruitment and staff training need to take account of this.</li> <li>• Outsourcing involves a learning process. Building up this knowledge for effective management of outsourcing.</li> <li>• Maintain knowledge of the market and the technical skill of the outsource activities for negotiation with vendors in tendering of future outsourcing works.</li> </ul>
3 Procurement Arrangement	
3.1 Specify service requirements in terms of outcomes or outputs.	<ul style="list-style-type: none"> <li>• Specify what the activity is, not how the activity is performed. Allow operation flexibility to the vendor for innovation and efficiency gain.</li> <li>• Outcomes or outputs to be specified as fully as possible and include appropriate service quality measures.</li> </ul>
3.2 Use of incentive payment scheme.	<ul style="list-style-type: none"> <li>• Structure payments in such a way that they are contingent on the achievement of certain levels of service, or by offering bonus payments for achievement of service levels above a pre-defined baseline.</li> </ul>
3.3 Foster competitive markets.	<ul style="list-style-type: none"> <li>• Design scope and duration of outsourcing contracts such that they are not too small or short to reduce interests, nor too large and lengthy that only the largest vendors can participate.</li> <li>• Avoid over-specifying the requirements. State the objectives and let the market develop the proposals and solutions.</li> </ul>



Guidelines	Implementation
4 Other Management Issues	
4.1 Recognition that outsourcing does not diminish the responsibility of the organization in the service.	<ul style="list-style-type: none"> <li>• Monitor vendor performance regularly and formally to ensure contract requirements are fulfilled.</li> <li>• Outsourcing contract to address mechanism for termination and hand-over of services to another vendor.</li> </ul>
4.2 Foster co-operative relationships.	<ul style="list-style-type: none"> <li>• Both the organisation and the vendor should recognize their mutual dependence and their mutual interest in developing a co-operating relationship rather than an adversarial relationship.</li> </ul>

Source:

Organisation For Economic Co-operation and Development (OECD). Public Management Occasional Papers No. 20 – Contracting out Government Services: Best Practice Guidelines and Case Studies. Organisation For Economic Co-operation and Development, Paris, 1997.

APPENDIX 3

TECHNIQUES IN MAINTAINING COMPATIBILITY OF  
ORGANIZATIONAL CULTURE

Techniques		Practical Use
1	Informal meeting	Courtesy call, golf trip.
2	Social events	Lunch or dinner gathering, sports day, annual party, spring dinner.
3	Education on company history	Conference and seminar, recorded educational package (e.g., video), visit to each other's facilities.
4	Rotation of employees between companies	Staff secondment, exchange of staff for broadening knowledge of each other's needs.
5	Participation in partner's internal improvement programme	Training, employer-vendor joint quality circle, jointly operated staff suggestion scheme.
6	Jointly sponsored recognition events.	Competition, awards of excellence.

Source:

Contents in 'Technique' column adopted from interview with M.F. Corbett in the book written by R. Klepper and W.O. Jones, Outsourcing Information Technology, Systems and Services. Upper Saddle River, NJ : Prentice Hall PTR, 1998.

## APPENDIX 4

### MANAGING THE CONSTITUENTS WITHIN THE EMPLOYER ORGANIZATION

If not correctly managed, stakeholders within the employer organization can have a negative impact on the outsourcing. The following are ways to manage the constituency with support by the top management of the employer.

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#### **Ways to Manage the In-house Constituents by the Employer**

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- 1        Ensure that all main constituents have been identified.
  - 2        For each constituent, determine their likely disposition, needs, and potential impact upon the outsourcing and timing of intervention.
  - 3        Against the view established in (2), prepare an approach for each constituent that is specifically designed either to respond to their needs or to control and unhelpful intervention.
  - 4        The approach must be carefully prepared and logically unassailable.
  - 5        Launch each intervention just ahead of the natural point at which the constituent would look to become involved.
  - 6        Monitor the effects of the intervention and update the approach.
  - 7        Launch the next intervention if necessary and repeat the cycle.
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Source:

White, Robert and Barry James. The Outsourcing Manual. Aldershot, England; Brookfield, Vt., USA : Gower, 1996.

## APPENDIX 5

### INTERVIEWS

This Appendix summarizes the interviews conducted for this MBA Project and the interview methodology.

This Appendix contains the following sections:

- 1 Notes of the interview with Mr. Alex Leung, Associate of Parsons Brinckerhoff (Asia) Limited – vendor to MTR Corporation in the case study in Chapter 3.
- 2 Notes of the interview with Mr. Alfred Cheung, Senior Manager of Hong Kong Monetary Authority, the company covered in the case study in Chapter 4.
- 3 Notes of the interview with Mr. Desmond Lau, Director of Automated Systems (Hong Kong) Limited.
- 4 Methodology in conducting the interviews.
- 5 Questionnaires.

#### Section 1

##### Summary of Interview with Mr. Alex Leung, Parsons Brinckerhoff (Asia) Limited

15 February 1999

Mr. Leung is an Associate of Parsons Brinckerhoff (Asia) Limited. He has been team leader and associate in charge of professional design outsource services for infrastructure works for the Hong Kong SAR Government, MTR Corporation and KCRC in Hong Kong. He was also involved in the design of mass transit railway systems in Singapore and Taiwan.

- 1 Mr. Leung considered that there is a positive relationship between motivation and performance in outsourcing of professional consulting services from his experience.
- 2 Mr. Leung stated that a motivated vendor would take steps to solve problems and improve the quality of service whereas a de-motivated vendor with low morale and will seek to avoid dealing with problems.



- 3 Mr. Leung recommended the following management practices in administering outsourcing contracts to promote vendor motivation:
  - (a) Adopting a positive approach in working with the vendor. (*Examples: bonus schemes, awards, and recognition.*) Use of punitive measures after things have gone wrong do little to help resolve the problem. (*Examples: withholding of payments, penalties.*)
  - (b) Be proactive and avoid taking action only after problems have arisen. Plan ahead with the vendor.
  - (c) Maintain open and clear communication with the vendor. Develop regular dialogues and informal channels of communication enhances the working relationship and vendor morale. (*Examples: discussing a potential problem face to face instead of exchanging letters to express one-sided opinions, working in the same office and allows more direct contact.*)
  - (d) Be fair and reasonable in dealing with the vendor - to treat the vendor as a partner. (*Examples: social gathering, activities for relationship building*)
- 4 Mr. Leung pointed out that motivation can also be influenced by the nature of the outsourced works. His team is more motivated in handling major infrastructure projects; and is generally less motivated in handling small private sector projects. He and his team appreciate working on projects that are challenging and add to one professional development.
- 5 Mr. Leung added that professionals could be de-motivated by employers who try to influence how the services are carried out and enforce the employers' opinions on the consultant. Mr. Leung considered that as professionals, the consultant should be given the freedom to carry out the services. Mr. Leung recommended that employers should treat his professional consultant with respect and be open to new ideas.
- 6 Mr. Leung said that his staff are more motivated in projects which attract a high level of attention from the company's senior management. For example, major infrastructure works for a large employer such as MTR Corporation and KCRC are closely managed by his company directors. Staff performance are observed by the directors. His staff are therefore more motivated knowing that good performance will help their career within the company. Due to this factor, Mr. Leung considered that the senior management of the employer should maintain dialogue with the senior management of the vendor to keep the vendor senior management aware of staff performance.

## Section 2

### Summary of Interview with Mr. Alfred Cheung, The Monetary Authority of Hong Kong

5 March 1999

Mr. Cheung is the Senior Manager of the Monetary Authority of Hong Kong (HKMA) IT Division. He manages the IT development of HKMA. He is experienced in managing vendors for computer hardware and software design, installation and maintenance.

- 1 Mr. Cheung described the process in tendering, selection and monitoring of IT outsourcing works at the Monetary Authority of Hong Kong.
- 2 Mr. Cheung categorized the IT outsourced works into 2 main types, namely:
  - (a) Custom Engineering for the design, supply, installation and commissioning of new IT systems.
  - (b) Maintenance Support for providing full time on call service in the servicing and maintenance of existing IT systems.
- 3 Mr. Cheung agreed that the performance of a vendor is directly related to how motivated the vendor's staff are.
- 4 Mr. Cheung considered that the following are means to motivate vendor by employer:
  - (a) Recognition of good performance. Reporting to senior management of the vendor that certain staff performed well in an outsource contract.
  - (b) Provide future business opportunities. Past performance is considered in the award of new outsourcing works.
  - (c) Provision of reference letter for good performance when requested by the vendor's staff.
- 5 Mr. Cheung opined that vendors should take an active role in motivating their own staff, rather than relying on the employer to provide motivation on the vendor's team. Mr. Cheung added that the vendor is contractually obliged to deliver the product and services.
- 6 Mr. Cheung considered that the following are determinants of the motivation level of the vendor's staff:
  - (a) Personal traits of the vendor's staff. People's characters contribute to whether he or she is more helpful or less helpful.



- (b) Organizational culture of the vendor. Some vendors' organizational culture emphasis customer service and some do not. Vendor senior management's commitment in promoting good performance and providing sufficient resources is also important.
  - (c) How much emphasis the vendor management place in motivating their staff. Performance level in the vendor staff increase with proper encouragement and award from vendor's management.
- 6 Mr. Cheung agreed that the hosting of social gatherings between employer and vendor could promote better working relationship and enhance vendor performance.

### Section 3

#### Summary of Interview with Mr. Desmond Lau, Automated System (Hong Kong) Limited

28 February 1999

Mr. Lau is a director of Automated Systems (Hong Kong) Limited, a company listed in the Stock of Exchange of Hong Kong. The company's key business is in computer hardware and software turnkey services. It is majority owned by Computer Sciences Corporation, one of the largest computer services company in the United States of America. The Hong Kong Monetary Authority in the case study in Chapter 4 is a major client of this company.

- 1 Mr. Lau advised that one of the keys to ensure success in outsourcing is the building up of trust and a partnership relation between the employer and the vendor.
- 2 Mr. Lau cited the contents of the talk delivered by Van B. Honeycutt, CEO of Computer Sciences Corporation, in the National Computer Board Distinguished IT Speaker Programme in Singapore on 25 February 1999. Mr. Lau stated that beside Computer Sciences Corporation, many IT companies, such as Sun Microsystems Inc., also share the philosophy that vendor and employer need to work in partnership to obtain the best results from outsourcing.
- 3 Mr. Lau shared with the author some of his ideas in promoting vendor motivation. He stated that reward and recognition are powerful motivation tools to vendor staff.
- 4 Mr. Lau stated that the Hong Kong Monetary Authority (HKMA) is an important customer of his company. He added that his company is dedicated in providing the best services in the market to HKMA.

## Section 4

### Methodology in Conducting the Interviews

The interviews conducted for this MBA Project played an important part in obtaining and validating information used in the case studies in Chapters 3 and 4. Interviews were conducted with selected vendors to MTR Corporation and HKMA (Parsons Brinckerhoff (Asia) Limited on the MTR Corporation case and Automated Systems (Hong Kong) Limited on the HKMA case).

The questionnaires in Section 5 in this Appendix were sent to the interviewees upon their acceptance of the author's invitation. One week was allowed between the issue of the questionnaires and the dates for interview for the interviewee to read the questions and to make preparation. The Author completed information research on the companies in the case studies prior to the interviews.

The questionnaires were constructed to probe for interviewees' ideas. All questions are open-ended. The questionnaires have worked successfully in opening up discussion between the interviewees and the author.

## Section 5

### Questionnaires

#### Questionnaire for Interview with Vendor

- 1 Do you find a positive relationship between motivation and performance in the outsourcing contracts that you involved?
- 2 Are there any particular outsourcing contracts in which you and your team are more motivated in taking part in?
- 3 How important is the behaviour of the employer in influencing how motivated your team are in the outsourcing contracts? Are there any particular types of employer you prefer to work with more?
- 4 What are the factors that you consider important in creating a motivating environment for the outsourcing relationship? Could you give a few examples?
- 5 What are the areas you consider employers should focus on in developing a motivating environment for your team? What are the management issues you wish to see happen and what are the management issues you think should be avoided?
- 6 Do you consider your team play a part in building up a positive outsourcing relationship with employers? What would you do to develop and maintain a positive outsourcing relationship with employers?



- 7 In your experience, are there any particular cases or examples related to motivation in outsourcing contracts that you wish to share?

#### Questionnaire for Interview with Employer

- 1 Do you find a positive relationship between motivation and performance in the outsourcing contracts that you involved?
- 2 Are there any particular outsourcing contracts which you found the vendors are more motivated in taking part in? What are the characteristics of those contracts in terms of management?
- 3 How important is the behaviour of the employer in influencing how motivated vendors are in outsourcing contracts?
- 4 What are the factors that you consider important in creating a motivating environment for the outsourcing relationship? Could you give a few examples?
- 5 What are the areas you consider Employers should focus in developing a motivating environment for the vendors? What are the management issues? What are the things the Employer sometime do that are de-motivating to the vendors?
- 6 Do you consider the vendors also play a part in building up a positive outsourcing relationship with Employers? What resources do you consider the vendors' top management should provide in promoting a motivating environment to the outsourcing team?
- 7 Do you find that motivation and performance level can vary within the vendors' organization? For example, the top manager is committed to deliver good quality services but the vendor's outsource team fail to perform well. What do you think are the reasons?
- 8 In your experience, are there any particular cases or examples related to motivation in outsourcing contracts that you wish to share?

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